



Management's Discussion and Analysis
and Financial Statements
December 31, 2022 and 2021

**The Cleveland Area Hospital Authority
d/b/a Cleveland Area Hospital Trust
Authority**

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Independent Auditor's Report

Board of Trustees
The Cleveland Area Hospital Authority
d/b/a Cleveland Area Hospital Trust Authority
Cleveland, Oklahoma

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority), as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2022 and 2021, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Standard

As discussed in Note 14 to the financial statements, the Authority has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 87, Leases, for the year ended December 31, 2020. Accordingly, a restatement has been made to the Authority's capital assets, long term liabilities as of January 1, 2020. Our opinion is not modified with respect to this matter.

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Correction of Error

As discussed in Note 14 to the financial statements, an error resulting in an understatement of net position, net investment in capital assets and overstatement of net position, unrestricted, was discovered by management of the Authority during the current year. Accordingly, amounts reported for net position, net investment in capital assets and unrestricted net position have been restated in the 2021 financial statements now presented. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 4 through 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
May 9, 2023

Introduction

The discussion and analysis of the financial performance for The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority) provides an overview of the Authority's financial activities and balances as of and for the fiscal years ended December 31, 2022, 2021 and 2020. The intent of this discussion and analysis is to provide further information on the Authority's performance as a whole; readers should also review the basic financial statements and the notes thereto to enhance their understanding of the Authority's financial status.

Financial Highlights

- Total Operating Revenue increased in 2022 by \$4.3M or 25% after increasing in 2021 by \$3.1M or 22%.
 - In 2022, The Authority increased full-time Providers in the Primary Care Clinic to 6, from a total of 4 in January of 2021. The increase in Primary Care patient volume drove a corresponding volume increase in both referred ancillary services and total operating revenue.
- Total assets decreased in 2022 by \$2.7M or 13% after increasing in 2021 by \$2.3M or 13%.
 - In 2021, the increase in assets was primarily driven by the recognition of \$2.8M of Provider Relief funds (PRF) that are supported by qualified purchases, including capital equipment, in Q1 & Q2 2021.
 - In 2022, the equivalent reduction was due to the expenditure of the final rounds of PRF and American Rescue Plan Act Funds for qualified purchases including capital equipment throughout the year.
- Total liabilities decreased in 2022 by \$6.1M or 43% after decreasing in 2021 by \$3M or 17%.
 - In 2022, the Authority recognized \$1.4M of PRF from the 2021 Refundable advance Provider Relief Fund, in addition \$3.4M of CMS Advance Payments that were held as earmarked cash and recorded as a liability in 2021, were repaid to CMS in 2022 primarily drove the decrease in total liabilities.
 - In 2021, the decrease in total liabilities is primarily driven by the recognition of \$2.8M of PRF that were recognized and \$1.6M of matured CMS Advance Payments. Offset by an increase of \$0.5M in third-party CMS Settlements related to fiscal year 2018 and 2019.
- The Authority reported Revenues in Excess of Expenses of \$3.5M in 2022 and \$5.4M in 2021.
- The Authority's net position increased \$3.5M in 2022 and \$5.4M in 2021. From 2015 to 2022, the Authority's net position has increased \$10.6M, to \$9.3M.

Using This Annual Report

The Authority's financial statements consist of three statements – Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off because of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position reports information about the Authority resources and its activities in a way that helps answer this question. These Statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure the Authority's financial health, or financial position. Over time, increases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors, such as changes in the Authority's patient base and measures of the quality of services it provides the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the statement of cash flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the statement of net position. The Authority's net position increased by \$3.5M in 2022 and \$5.4M in 2021 as shown below in Table 1.

Table 1: Assets, Liabilities and Net Position

	2022	2021 Restated	2020 Restated
Assets			
Current assets	\$ 7,906,424	\$ 10,632,877	\$ 10,052,950
Noncurrent cash equivalents	2,297,286	3,150,244	1,924,550
Capital assets, net	7,186,836	6,271,582	5,686,744
Rent receivable	-	49,216	189,489
Total assets	<u>\$ 17,390,546</u>	<u>\$ 20,103,919</u>	<u>\$ 17,853,733</u>
Liabilities			
Current liabilities	\$ 4,980,326	\$ 10,559,530	\$ 9,048,157
Noncurrent liabilities	<u>3,042,361</u>	<u>3,567,579</u>	<u>8,067,448</u>
Total liabilities	<u>8,022,687</u>	<u>14,127,109</u>	<u>17,115,605</u>
Deferred Inflow of Resources	<u>49,216</u>	<u>189,488</u>	<u>321,433</u>
Net Position			
Net investment in capital assets	3,531,230	2,320,703	1,086,457
Unrestricted	<u>5,787,413</u>	<u>3,466,619</u>	<u>(669,762)</u>
Total net position	<u>9,318,643</u>	<u>5,787,322</u>	<u>416,695</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 17,390,546</u>	<u>\$ 20,103,919</u>	<u>\$ 17,853,733</u>

A significant component of the change in the Authority's assets is the expenditure of Cash related to non-capitalizable expenses from PRF funds included in 2021's current assets balance. Another significant component was funds used for the clinic expansion that were previously internally designated. The Authority internally designated \$1.2M in 2021. Bringing the total designated amount to \$3.2M for year-end. The decrease in total liabilities was driven by the recognition of \$1.4M of PRF, recorded as a liability pending documentation of qualified expenditures that were recognized and released, and \$3.4M of CMS Advance Payments which were repaid to CMS in 2022, previously held as earmarked cash and recorded as a liability.

Table 2: Operating Results and Changes in Net Position

	2022	2021 Restated	2020 Restated
Operating Revenues			
Net patient service revenue	\$ 21,414,344	\$ 17,143,143	\$ 14,046,129
Other operating revenue	212,667	217,041	220,777
Total operating revenue	<u>21,627,011</u>	<u>17,360,184</u>	<u>14,266,906</u>
Operating Expenses			
Salaries, wages, and employee benefits	13,701,313	11,581,168	10,860,934
Other	5,780,200	4,882,877	4,085,857
Depreciation and amortization	872,259	688,990	755,990
Total operating expenses	<u>20,353,772</u>	<u>17,153,035</u>	<u>15,702,781</u>
Operating Income (Loss)	<u>1,273,239</u>	<u>207,149</u>	<u>(1,435,875)</u>
Nonoperating Revenues (Expenses)			
City appropriations	699,603	662,332	597,580
Grants and contributions	366,868	31,263	139,073
Investment income	5,260	1,840	6,044
Interest expense	(237,080)	(282,059)	(406,671)
Provider Relief Funds	1,354,091	2,842,477	49,461
Gain on Sale of Assets	69,340	-	-
Forgiveness Paycheck Protection Program loan	-	1,907,625	1,910,640
Nonoperating revenues, net	<u>2,258,082</u>	<u>5,163,478</u>	<u>2,296,127</u>
Revenues in Excess of Expenses and Change in Net Position	3,531,321	5,370,627	860,252
Net Position (Deficit), Beginning of Year	<u>5,787,322</u>	<u>416,695</u>	<u>(443,557)</u>
Net Position, End of Year	<u>\$ 9,318,643</u>	<u>\$ 5,787,322</u>	<u>\$ 416,695</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating results. Generally, the operating income or loss is the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Authority had operating income of \$1.3M in 2022 versus \$207K in 2021.

- The 2022 Increase in patient volume was the driver of the 25% increase in total operating revenue, and the \$1.1M increase in operating income.

- As noted for 2022 above, this 25% increase is part of the Net patient service revenue increase of \$4.3M or 22%. Net patient service revenues increased \$3.1m in 2021 due to the 30% increase in ancillary volume driven by Radiology and Therapy services. The increases of volumes represents positive engagement from our community and market area for the services we provide as well as a return to pre-pandemic volume levels. Clinic visits alone are 6,700 or 60% greater in 2022 versus 2019. This growth has been driven by the recruitment of 2 additional primary care providers. This volume is expected to continue to increase for 2023 with the completion of our clinic expansion, adding an additional 4,000 square feet and modernizing the look and feel of the care environment.
- Salaries, wages, and employee benefits increased \$2.1M or 18% in 2022. While the Authority strives to maintain a competitive and positive culture, due to a nationwide shortage of healthcare workers, management evaluated pay rates for the whole system and moved rates to a more competitive position based on relevant experience and credentials of each employee. Therefore, the primary driver of the increase was driven by a system-wide evaluation of pay rates and an increase in headcount consistent with the increase in expenses of 5%. The Authority had a total of 199 employees at FYE 2021 and 207 at FYE 2022. FY2022 included a full year's salary of two new providers that were recruited and onboarded at the end of FY2021 as well as staff to support their volume. A tertiary driver making up 6% of the increase was the increased cost of benefits associated with both inflation and the increased head count.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of city appropriations, grants and contributions, interest expense, and recognition of Provider Relief funds. Nonoperating revenues decreased \$2.9M or 56% in 2022 primarily due to the decrease in Provider Relief funds of \$1.1M and Paycheck Protection Program forgiveness of \$1.9M granted in 2021. In 2021 Nonoperating revenues increased \$2.9M or 125% due to the recognition of \$2.8M of Provider Relief funds. City appropriations increased \$37K or 6% in 2022 after increasing \$65K or 11% in 2021, due to higher sales tax volume.

The Authority's Cash Flows

The Authority's overall liquidity decreased during the year with a net decrease to cash and cash equivalents of \$3.6M in 2022. Cash flows from operations decreased \$1.4M compared to the increase of \$1.8M in 2021. The 2022 decrease is driven primarily by the rising cost of labor to support operations. Cash used for noncapital financing activities increased by \$4.2M due to the repayment of CMS Advance Payments that were received in a prior year. In 2021, cash from noncapital financing activities increased by \$1.3M driven by both the receipt of the Paycheck Protection Program and PRF funds. Cash used for capital and capital related financing activities was consistent at \$2.26M in 2022 compared to \$2.27M in 2021. These cash outflows are being driven by necessary capital improvements to expand services and update equipment through the appropriate use of the PRF funds.

Capital Assets

The Authority had capital assets net of accumulated depreciation and amortization of \$7.2M and \$6.3M at December 31, 2022 and 2021 as detailed in Note 5 to the financial statements. The Authority purchased new capital assets totaling \$1.8M and \$1.3M for the years ended December 31, 2022 and 2021. Approximately \$1M of the additions in 2022 relate to the construction expanding our RHC compared to \$.04M being related in 2021. There were no significant commitments for capital expenditures at December 31, 2022 and 2021.

Debt

The Authority had \$3.6M and \$4.2M in long term debt at December 31, 2022 and 2021. The Authority did take on \$25k in new debt in 2022. Notes 6, 7, & 8 to the financial statements detail the changes and terms of the Authority's debt. With the adoption of GASB 87 our breakdown of debt elements are summarized in the table below:

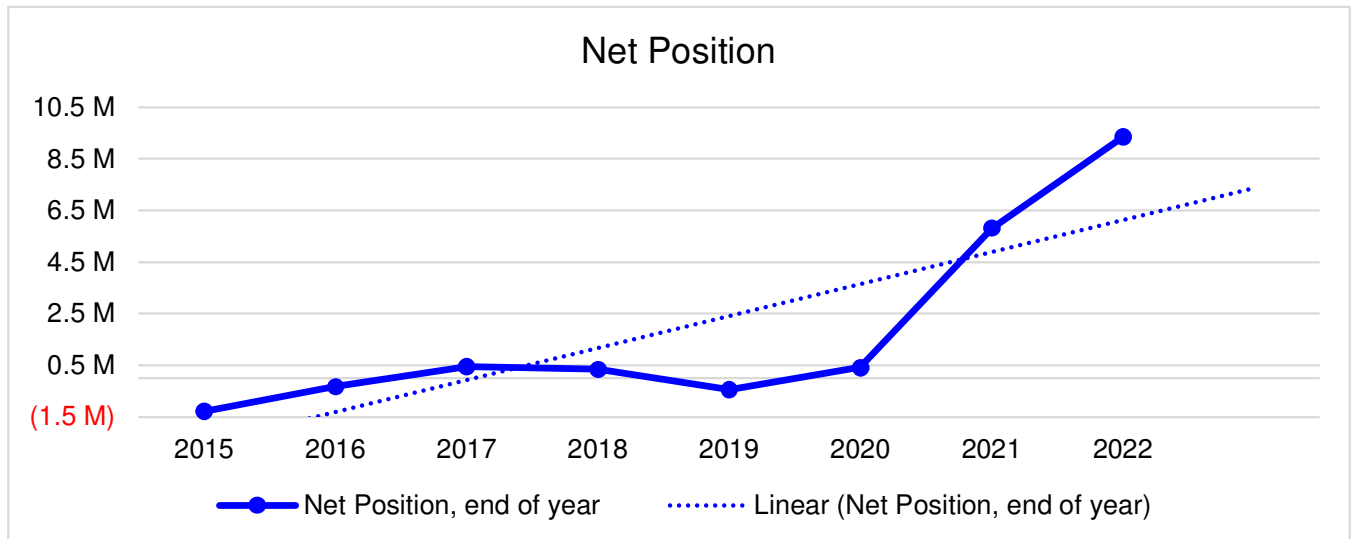
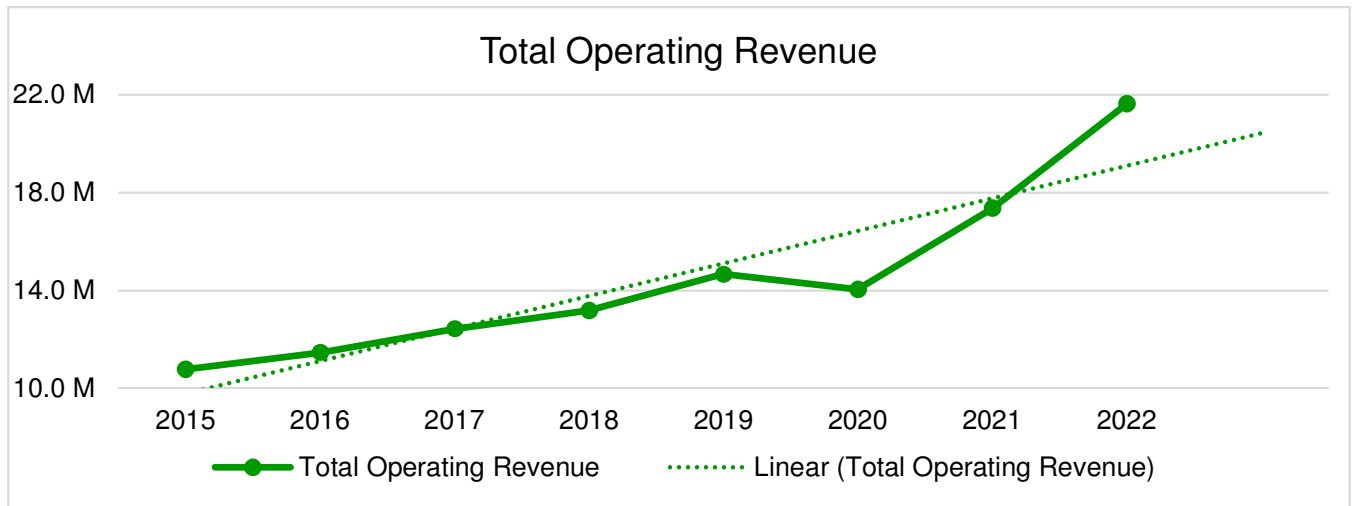
	Balance December 31, 2021	Additions	Payments	Balance December 31, 2022	Due Within One Year
Software Liability (Note 6)	\$ 938,120	\$ -	\$ (124,242)	\$ 813,878	\$ 129,322
Right to Use Liabilities (Note 7)	706,871	25,429	(287,308)	444,992	245,641
Direct Borrowing (Note 8)	2,514,129	-	(164,812)	2,349,317	190,863
Total debt	\$ 4,159,120	\$ 25,429	\$ (576,362)	\$ 3,608,187	\$ 565,826

	Balance December 31, 2020	Additions	Forgiveness/ Payments	Balance December 31, 2021	Due Within One Year
Software Liability (Note 6)	\$ 1,054,424	\$ -	\$ (124,242)	\$ 938,120	\$ 124,242
Right to Use Liabilities (Note 7)	1,038,267	-	(331,396)	706,871	286,687
Direct Borrowing (Note 8)	2,853,733	1,893,107	(2,232,711)	2,514,129	180,612
Total debt	\$ 4,946,424	\$ 1,893,107	\$ (2,688,349)	\$ 4,159,120	\$ 591,541

Historical Trends

The tables below are the operating and revenue in excess of (less than) expenses and changes in net position.

	<i>Audited</i>													
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Operating Revenue	9.5 M	11.1 M	12.8 M	12.4 M	12.0 M	13.3 M	10.8 M	11.5 M	12.4 M	13.2 M	14.7 M	14.0 M	17.4 M	21.6 M
Total Operating Expense	11.3 M	11.9 M	13.6 M	12.1 M	12.7 M	15.2 M	11.8 M	11.1 M	12.0 M	13.5 M	15.6 M	15.8 M	17.1 M	20.4 M
Revenues in Excess of (Less than) Expenses and Change in Net Position	(1.3 M)	(0.4 M)	(0.7 M)	0.3 M	(0.4 M)	(1.4 M)	(0.8 M)	1.0 M	0.8 M	(0.1 M)	(0.8 M)	0.9 M	5.4 M	3.5 M
Net Position, end of year	2.1 M	1.6 M	1.0 M	1.3 M	0.9 M	(0.5 M)	(1.3 M)	(0.3 M)	0.4 M	0.3 M	(0.4 M)	0.4 M	5.8 M	9.3 M
	2009-2015 decrease (3.4 M)						2016-2022 increase 10.6 M							



Notes on Revenue & Expense Trend Table, Operating Revenue Graph, Net Position Graph

- Net Position has improved \$10.6M from 2015 to 2022.
- Average monthly visit volume in the Clinic has increased over 100% from 2017 to 2022.
- The average daily census has increased 72% from 2015 to 2022.
- The Authority has acquired \$3.5M in new medical equipment (CT, 3D Mammography, Digital X-Ray, Telemetry) from 2017 to 2022. In addition the Authority made supporting improvements in quality of care and has incurred \$1M as of December 31, 2022 towards the expansion of our Primary Care Clinic to support increased access and availability to quality primary care in our area.

Management's Plans

The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority includes Cleveland Area Hospital, a critical access hospital, and Lake Area Medical Associates, a Primary Care Clinic, located in Cleveland, Oklahoma. The hospital provides 24/7 emergency, laboratory, radiology, respiratory therapy, inpatient dialysis, and inpatient care services. A fully equipped rehabilitation center, including physical, speech and occupational therapies, provides both outpatient and inpatient services. Lake Area Medical Associates, the Clinic, operates under extended hours on weekdays and includes six providers offering primary care, pediatric, and behavioral health services.

Cleveland Area Hospital is the sole hospital in Pawnee county, creating both responsibility and an opportunity to positively impact rural healthcare in Oklahoma. Stable management and strong leadership preserve the culture and stability of Cleveland Area Hospital by prioritizing excellence in patient care, and focusing on integrity, character, collaboration, and work ethic when considering additions to the team.

The COVID-19 Pandemic tested the strength of the organization, and we succeeded in experiencing an overall growth in volume through positive patient experience as well as improvements in the quality of services we deliver through investments in capital to mitigate the spread and improve delivery of treatment of the virus. The staff and leadership team of Cleveland Area Hospital have driven a complete financial and cultural turnaround over the past 8 years. During the height of the outbreak in Oklahoma, our organization provided constant COVID-19 test administration, daily emergency services, and when the urban hospitals had reached capacity, we offered inpatient acute care services for COVID-19 patients.

In 2021, the Oklahoma Office of Rural Health conducted a community health needs assessment for Cleveland Area Hospital (available at www.clevelandareahospital.com). The survey results indicated demand for additional services, which included increasing the number of primary care providers. The survey also identified the desire of the community to have surgical services, dialysis, pain management, and specialty services such as Cardiology, Dermatology, and OB/GYN available locally. Cleveland Area Hospital's primary service areas are Pawnee, Osage, Creek, and Payne counties, as well as small areas of Tulsa and Noble counties. The central service area radius is about 25 miles with the extended service area radius near 45 miles. The community response to the health needs assessment fuels our vision for growth and service expansion with a regional focus, which is also supported by an addressable market analysis completed in 2022.

The following investments and accomplishments over the past 8 years have laid the groundwork for our next stage of growth and expansion of services to our region:

- 15 of the existing 16 total physicians, physician assistants and nurse practitioners have been recruited during this time. These professionals have enhanced the performance of primary care, inpatient, and emergency services.
- Increased consistency, dedication to patient care, and positive engagement with the community have cultivated trust and value.
- Through a combination of eliminating non-productive expense and investing in recruiting, staff development, medical equipment, technology infrastructure, and operational improvement, the Authority's efforts have delivered a \$10.6M increase in Net Position from 2015 to 2022.

The next stage of growth includes the construction of a new replacement facility. The existing hospital was opened in August of 1963. Due to the aging facility design, which does not meet modern compliance standards, the surgery and procedure rooms were taken out of service in 2015. Despite the discontinuation of this valuable and relevant service line, the Authority has grown total operating revenue an average of 8% annually from 2015 to 2022, while also delivering an increase of \$10.6M in Net Position.

Due diligence on the construction of a replacement facility began in 2018, and has been a long-term effort of preparation and intelligence gathering, including:

- Facility assessment
- Addressable market analysis
- Debt capacity study
- Feasibility study
- CEO interviews, onsite visits to replacement facilities, researching financials of successful replacement hospitals
- Conferences and meetings with subject matter experts in architecture, market analysis, investment banking, financial advising, bond counsel, regional banking, Certified Public Accounting, feasibility, and the USDA Rural Development programs
- Cultivating relationships with larger health systems, as well as individual physician specialists

We have been in discussion with the Oklahoma office of USDA since 2018. The next steps in due diligence include submitting the prepared feasibility study and the 2022 audited financial report to the USDA for review. The existing proposed project scope is for 62,000 square feet at an estimated construction cost of \$40M.

Initiatives Scheduled for Fiscal Year 2023

- Strategic review of payer contracts and patient receivables turnover, to increase payer yields and current cash flow.
- Submission of a USDA Direct Loan application for the construction of a full replacement hospital.
- Continued growth as a Regional Healthcare Center, allied with larger health systems. Active and successful discussions continue with both larger health systems and established specialty physicians.

Conclusion

Management points to the turnaround of both the financial stability and the culture of the Authority. The Authority continues to improve. From Management's perspective, the plans noted above are necessary for the long-term success of the operation. This confidence is supported by:

- Positive trajectory in Net Position from 2015 to 2022.
- Measurable improvements from 2015 include favorable increases in Revenue, a favorable increase in net position, a favorable decrease in accounts payable, and favorable increases in patient volumes.
- Stability and commitment of management team over the past eight years.
- Material, significant investments and improvements implemented in 2016-2022. Full replacement of IT and Phone infrastructure in 2017. Replacement of 100% of computer workstations and laptops in 2017 and updates in 2022. 64-slice CT, digital X-Ray in 2018. 3D Mammography and EMR in 2019. Portable digital X-Ray in 2020. New beds and gurneys for the floor in 2021 and 2022.
- 2018 – successful recruiting of 2 full-time physicians and 1 physician assistant in the Clinic.
- 2019 – successful recruiting of a medical director for the Emergency Department.

- 2020 – successful recruiting of 2 additional physicians who started in 2021 (1 in Emergency Department, 1 in Clinic)
- 13% or 1,500+ increase in Clinic visits in 2021 with an additional 5,400 or 40% increase in 2022 due to the new providers.
- \$1.9M Paycheck Protection Program funding received, attested, and forgiven in 2020.
- \$1.9M Second Draw Paycheck Protection funding received in February 2021, forgiven in 2021.
- The existing, preliminary, positive feasibility study on the proposal for a replacement hospital.
- A replacement facility positions the organization for reinstating a surgery program, which will provide needed services in the community and contribute to the organization's financial performance.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority, 1401 W Pawnee St, Cleveland, OK 74020.

The Cleveland Area Hospital Authority

Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> Restated
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,068,161	\$ 6,452,696
Restricted under Provider Relief Fund	529,403	1,883,493
Receivables		
Patient, net of estimated uncollectibles of approximately \$1,126,000 in 2022 and \$2,103,000 in 2021	1,085,259	1,278,373
City appropriations	288,076	154,090
Estimated third-party payor settlements	238,567	-
Other	263,355	362,662
Current maturities of rent receivable	49,216	140,272
Supplies	246,380	217,092
Prepaid expenses	138,007	144,199
Total current assets	<u>7,906,424</u>	<u>10,632,877</u>
Noncurrent Cash Equivalents		
Internally designated for capital improvements	<u>2,297,286</u>	<u>3,150,244</u>
Capital Assets		
Capital assets not being depreciated	1,380,129	596,779
Capital assets being depreciated, net	5,531,293	5,121,655
Right to use leased assets, net	275,414	553,148
Total capital assets	<u>7,186,836</u>	<u>6,271,582</u>
Rent Receivable, Less Current Maturities	<u>-</u>	<u>49,216</u>
Total assets	<u>\$ 17,390,546</u>	<u>\$ 20,103,919</u>

The Cleveland Area Hospital Authority

Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> Restated
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	\$ 190,863	\$ 180,612
Current maturities of CMS advance payments	-	3,377,460
Current maturities of right to use lease liabilities	245,641	286,687
Current maturities of software liabilities	129,322	124,242
Accounts payable		
Trade	2,475,759	2,365,452
Estimated third-party payor settlements	-	556,355
Accrued expenses		
Salaries, wages and benefits	1,167,563	1,748,011
Self-insurance claims	237,393	-
Interest	4,382	4,516
Deferred revenue	-	32,702
Refundable advance - Provider Relief Fund	529,403	1,883,493
	<u>4,980,326</u>	<u>10,559,530</u>
Total current liabilities		
	<u>4,980,326</u>	<u>10,559,530</u>
Noncurrent liabilities		
Right to use lease liabilities, less current maturities	199,351	420,184
Software liabilities, less current maturities	684,556	813,878
Long-term debt, less current maturities	2,158,454	2,333,517
	<u>3,042,361</u>	<u>3,567,579</u>
Total noncurrent liabilities		
	<u>3,042,361</u>	<u>3,567,579</u>
Total liabilities	<u>8,022,687</u>	<u>14,127,109</u>
Deferred Inflow of Resources	<u>49,216</u>	<u>189,488</u>
Net Position		
Net investment in capital assets	3,531,230	2,320,703
Unrestricted	5,787,413	3,466,619
	<u>9,318,643</u>	<u>5,787,322</u>
Total net position		
	<u>9,318,643</u>	<u>5,787,322</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,390,546</u>	<u>\$ 20,103,919</u>

The Cleveland Area Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> Restated
Operating Revenues		
Net patient service revenue (net of provision for bad debts of \$1,497,531 in 2022 and \$3,067,645 in 2021)	\$ 21,414,344	\$ 17,143,143
Other revenue	<u>212,667</u>	<u>217,041</u>
Total operating revenues	<u>21,627,011</u>	<u>17,360,184</u>
Operating Expenses		
Salaries, wages and employee benefits	13,701,313	11,581,168
Other	5,780,200	4,882,877
Depreciation and amortization	<u>872,259</u>	<u>688,990</u>
Total operating expenses	<u>20,353,772</u>	<u>17,153,035</u>
Operating Income	<u>1,273,239</u>	<u>207,149</u>
Nonoperating Revenues (Expenses)		
City appropriations	699,603	662,332
Grants and contributions	366,868	31,263
Investment income	5,260	1,840
Interest expense	(237,080)	(282,059)
Provider Relief Funds	1,354,091	2,842,477
Other	69,340	-
Forgiveness of Paycheck Protection Program Loan	<u>-</u>	<u>1,907,625</u>
Net nonoperating revenues	<u>2,258,082</u>	<u>5,163,478</u>
Revenues in Excess of Expenses and Change in Net Position	3,531,321	5,370,627
Net Position, Beginning of Year	<u>5,787,322</u>	<u>416,695</u>
Net Position, End of Year	<u><u>\$ 9,318,643</u></u>	<u><u>\$ 5,787,322</u></u>

The Cleveland Area Hospital Authority

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> Restated
Operating Activities		
Receipts from and on behalf of patients	\$ 20,812,536	\$ 18,062,733
Payments to suppliers and contractors	(5,937,374)	(4,097,796)
Payments to and on behalf employees	(14,044,368)	(11,553,873)
Other receipts and payments, net	381,974	186,577
Net Cash from Operating Activities	<u>1,212,768</u>	<u>2,597,641</u>
Noncapital Financing Activities		
City appropriations received	565,617	608,137
Net proceeds from Paycheck Protection Program Loan	-	1,893,107
Repayments to CMS advance payments	(3,377,460)	(1,604,258)
Principal paid on noncapital long-term debt	(11,275)	(35,166)
Interest paid on noncapital long-term debt	(13,109)	(25,468)
Grants and contributions Provider Relief Fund	(32,701)	802,271
Other noncapital grants and contributions	366,868	(14,534)
Net Cash (used for) from Noncapital Financing Activities	<u>(2,502,060)</u>	<u>1,624,089</u>
Capital and Related Financing Activities		
Interest paid on long-term debt	(145,619)	(131,744)
Principal paid on long-term debt	(153,537)	(304,438)
Interest paid on right to use lease liabilities	(29,224)	(50,625)
Principal paid on right to use lease liabilities	(287,308)	(331,396)
Interest paid on software liabilities	(49,262)	(56,875)
Principal paid on software liabilities	(124,242)	(116,304)
Purchases of capital assets	(1,522,859)	(1,273,828)
Proceeds from sale of capital assets	4,500	-
Net Cash used for Capital and Related Financing Activities	<u>(2,307,551)</u>	<u>(2,265,210)</u>
Investing Activities		
Investment income received	5,260	1,840
Net Change in Cash and Cash Equivalents	(3,591,583)	1,958,360
Cash and Cash Equivalents, Beginning of Year	<u>11,486,433</u>	<u>9,528,073</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,894,850</u>	<u>\$ 11,486,433</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Position		
Cash and cash equivalents	\$ 5,068,161	\$ 6,452,696
Restricted under Provider Relief Fund	529,403	1,883,493
Internally designated for capital improvements	2,297,286	3,150,244
	<u>\$ 7,894,850</u>	<u>\$ 11,486,433</u>

The Cleveland Area Hospital Authority

Statements of Cash Flows

Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Reconciliation of Operating Income to Net Cash from Operating Activities		
Operating income	\$ 1,273,239	\$ 207,149
Adjustments to reconcile operating income to net cash from operating activities		
Depreciation and amortization	872,259	688,990
Provision for bad debts	1,497,531	3,067,645
Changes in assets and liabilities		
Patient receivables	(1,304,417)	(3,203,380)
Estimated third-party payor settlements	(794,922)	1,055,325
Other receivables	169,307	(30,464)
Supplies	(29,288)	(30,928)
Prepaid expenses	6,192	(86,581)
Self-insurance claims	237,393	-
Accounts payable	(134,078)	902,590
Accrued expenses	<u>(580,448)</u>	<u>27,295</u>
Net cash from operating activities	<u>\$ 1,212,768</u>	<u>\$ 2,597,641</u>
Supplemental Disclosure of Noncash Activities		
Capital assets financed through lease liability	<u>\$ 25,429</u>	<u>\$ -</u>
Capital assets financed through accounts payable	<u>\$ 244,385</u>	<u>\$ -</u>
Forgiveness of Paycheck Protection Program loan and related interest	<u>\$ -</u>	<u>\$ 1,907,625</u>

Note 1 - Organization and Significant Accounting Policies

The financial statements of The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority) have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by the Authority are described below.

Reporting Entity

The Authority was created under a trust indenture dated November 22, 1976, as a public trust under provisions of Title 60 of the Oklahoma Statutes for the benefit of the citizens of Cleveland, Oklahoma. The Authority is organized as a political subdivision of the state of Oklahoma and has been recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(a). The Authority is a component unit of the City of Cleveland, Oklahoma (the City), and the Cleveland City Council appoints the board members of the Authority.

For financial reporting purposes, the Authority has included all funds, organizations, agencies, boards, commissions, and authorities. The Authority has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Authority are such that the exclusion would cause the Authority's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Authority to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Authority.

Blended Component Unit

Cleveland Area Hospital Holdings, Inc. (Hospital) is a 14-bed critical access hospital (CAH) located in Cleveland, Oklahoma and is an Oklahoma non-profit corporation, recognized by the Internal Revenue Service as exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). The Hospital is included as a blended component unit of the Authority. The financial statements include the financial activity of the Authority and the Hospital, collectively referred to as the Authority. The Authority's board appoints the board members of the Hospital.

In addition, the board of the Hospital is the same as the board of the Authority. Accordingly, the Authority has control over the use of all Hospital funds, assets and operations to fulfill its mission as specified in the bylaws. The Hospital primarily earns revenue by providing inpatient, outpatient, and emergency care services to patients in Cleveland, Oklahoma, and the surrounding area.

Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned, and expenses are recorded when the liability is incurred.

Basis of Presentation

The statement of net position displays the Authority's assets and liabilities with the difference reported as net position. Net position is reported in the following components:

Net investment in capital assets consists of net capital assets reduced by the outstanding balances of any related debt obligations attributable to the acquisition, construction or improvement of those assets.

Restricted net position:

Expendable – Expendable net position results when constraints placed on net position are either externally imposed or imposed through enabling legislation. The Authority does not have expendable restricted net position as of December 31, 2022 and 2021.

Nonexpendable – Nonexpendable net position is subject to externally imposed stipulations which require them to be maintained permanently by the Authority. The Authority does not have nonexpendable restricted net position as of December 31, 2022 and 2021.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward the most restrictive resources and then toward unrestricted resources.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2022 and 2021 decreased approximately \$36,000 and increased approximately \$143,000 as a result of increased or decreased payments compared to originally estimated amounts. These amounts total less than 1% of net patient service revenues for each year, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less, excluding internally designated and externally restricted cash equivalents. For purposes of the statement of cash flows, the Authority considers all cash and investments with an original maturity of three months or less as cash and cash equivalents.

Restricted Cash

Cash that has restrictions which change the nature or normal understanding of the availability of the asset is reported separately on the statements of net position. Restricted cash available for obligations classified as current liabilities are reported as current assets.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

City Appropriations

Effective January 27, 1978, the citizens of the City approved a 1% sales tax with no expiration date to provide unrestricted appropriations to the Authority. The Authority received approximately 3% of its financial support from city appropriations related to sales taxes during the years ended December 31, 2022 and 2021. These funds were used to support operations and make payments on long-term debt.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market and are expensed when used.

Investment Income

Interest, dividends, gains and losses, both realized and unrealized, on investments and deposits are included in nonoperating revenues when earned.

Capital Assets

Property and equipment acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method.

Right to use leased assets are recognized at the lease commencement date and represent the Authority's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any direct cost necessary to place the leased asset into service.

Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 5 years.

The estimated useful lives of capital assets are as follows:

Land improvements	8-40 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as additions to unrestricted net position, and are excluded from revenues in excess of expenses. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted net position.

Compensated Absences

The Authority's employees earn paid time-off days at varying rates depending on years of service. Employees may accumulate paid time-off up to a specified maximum. Employees are paid for accumulated paid time-off upon termination. The liability for compensated absences is included with accrued expenses in the accompanying financial statements.

Estimated Health Claims Payable

The Authority provides for self-insurance reserves for estimated incurred but not reported claims for its employee health plan. These reserves, which are included in current liabilities on the statements of net position, are estimated based upon historical submission and payment data, cost trends, utilization history, and other relevant factors. Adjustments to reserves are reflected in the operating results in the period in which the change in estimate is identified.

Operating Revenues and Expenses

The Authority's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues and expenses of the Authority result from exchange transactions associated with providing health care services - the Authority's principal activity, and the costs of providing those services, including depreciation and excluding interest cost. All other revenues and expenses are reported as nonoperating.

Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity Care

The Authority provides health care services to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of these amounts, they are not reported as patient service revenue. The estimated cost of providing these services was \$-0- and \$13,000 for the years ended December 31, 2022 and 2021, calculated by multiplying the ratio of cost to gross charges for the Authority by the gross uncompensated charges associated with providing charity care to its patients.

Grants and Contributions

The Authority may receive grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after revenues in excess of expenses.

Implementation of GASB Statement No. 87

As of January 1, 2020, the Authority adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. As a result of implementing this standard the Authority recognized right to use assets and liabilities of approximately \$1,038,000 as of January 1, 2020, which included previously recognized capital leases of approximately \$727,000 which were restated as right to use assets and liabilities. The impact of implementing this standard on the December 31, 2021 financial statements is included in Note 14. The additional disclosures required by this standard are included in Notes 5 and 7.

Note 2 - Net Patient Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: The Authority is licensed as a Critical Access Hospital (CAH). The Authority is reimbursed for most acute care services under a cost reimbursement methodology with final settlement determined after submission of annual cost reports by the Authority and are subject to audits thereof by the Medicare Administrative Contractor (MAC). The Authority's Medicare cost reports have been audited by the MAC through the year ended December 31, 2020. Clinical services are paid on a cost basis or fixed fee schedule.

Medicaid: The Authority is reimbursed for services rendered to patients covered by the state Medicaid program on a prospective per discharge or fee schedule method with no retroactive adjustments. These payment rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

The Authority has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. Concentration of gross revenues by major payor accounted for the following percentages of the Authority's patient service revenues for the years ended December 31, 2022 and 2021:

	2022	2021
Medicare	26%	30%
Medicaid	32%	25%
Blue Cross and other commercial payors	40%	41%
Self pay and other	2%	4%
	<u>100%</u>	<u>100%</u>

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended December 31, 2022 and 2021 increased approximately \$366,000 and \$145,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements, adjustments to amounts previously estimated and years that are no longer likely subject to audits, reviews, and investigations.

CMS Advance Payments

The CMS advance payments balance consist of payments received from the Centers for Medicare & Medicaid Services (CMS), in order to increase cash flow for Medicare Part A providers who were impacted by COVID-19 pandemic. The Authority received \$4,981,718 in advance payments during April 2020, which will be recouped through Medicare claims processed beginning 365 days after payments are received and will continue until the balance of the advanced payments have been recouped, or for 29 months from the date that each advance payment was issued, at which point any remaining unpaid balance is due. The advance payments balance is non-interest bearing through the 29-month repayment period. During 2022, the entire balance has been recouped.

Note 3 - Deposits

Cash and cash equivalents consist of cash and deposits as of December 31, 2022 and 2021.

Deposits are reported in the following statement of net position captions:

	2022	2021
Cash and cash equivalents	\$ 5,068,161	\$ 6,452,696
Restricted under Provider Relief Fund	529,403	1,883,493
Internally designated for capital improvements (noncurrent)	2,297,286	3,150,244
	<u>\$ 7,894,850</u>	<u>\$ 11,486,433</u>

Deposits – Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or investment company failure, the Authority's deposits may not be returned to it. State statute requires that any deposits in excess of federal depository or other insured amounts be collateralized by U.S. Government securities in the name of the Authority. Statutes also require that the market value of the collateral be at least 100% of the excess deposits. The Authority's deposit policy does not further restrict bank deposits or limit investment deposits.

The Authority's deposits in banks at December 31, 2022 and 2021 were entirely covered by federal depository insurance or by collateral held by the Authority's custodial bank in the Authority's name.

Note 4 - Provider Relief Fund

The Authority received \$-0- and \$756,474 for the years ended December 31, 2022 and 2021 of Coronavirus Aid, Relief, and Economic Security (CARES) Act Provider Relief Funds administered by the Department of Health and Human Services (HHS). The funds are subject to terms and conditions imposed by HHS. Among the terms and conditions is a provision that payments will only be used to prevent, prepare for, and respond to coronavirus and shall reimburse the recipient only for healthcare-related expenses or lost revenues that are attributable to coronavirus. Recipients may not use the payments to reimburse expenses or losses that have been reimbursed from other sources or that other sources are obligated to reimburse. HHS currently has deadlines for incurring eligible expenses and lost revenues, varying based on the date the Authority received the funds. Unspent funds will be expected to be repaid.

These funds are considered subsidies and recorded as a liability when received and are recognized as revenues in the accompanying statements of revenues, expenses, and changes in net position as all terms and conditions are considered met. As these funds are considered subsidies, they are considered nonoperating activities. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date that the financial statements were issued. In addition, this program may be subject to oversight, monitoring and audit. Failure by a provider that received a payment from the Provider Relief Fund to comply with any term or condition can subject the provider to recoupment of some or all of the payment. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

As of December 31, 2022 and 2021, the Authority had liability balances of \$529,403 and \$1,883,493, which were included in current liabilities on the accompanying statements of net position, as well as restricted cash totaling \$529,403 and \$1,883,493, which are subject to the restrictions imposed by HHS. During the years ended December 31, 2022 and 2021, the Authority recognized \$1,354,091 and \$2,842,477 as revenue, included as nonoperating activities on the statements of revenues, expenses, and changes in net position.

Note 5 - Capital Assets

Capital asset and right to use asset additions, retirements, transfers and balances for the year ended December 31, 2022 are as follows:

	Balance December 31, 2021 as restated	Additions	Transfers/ Retirements	Balance December 31, 2022
Capital assets not being depreciated				
Land	\$ 79,717	\$ -	\$ -	\$ 79,717
Construction in progress	61,759	1,244,442	(5,789)	1,300,412
Equipment not placed in service	455,303	-	(455,303)	-
Total capital assets not being depreciated	<u>\$ 596,779</u>	<u>\$ 1,244,442</u>	<u>\$ (461,092)</u>	<u>\$ 1,380,129</u>
Capital assets being depreciated				
Land improvements	\$ 159,155	\$ -	\$ -	\$ 159,155
Building and improvements	5,826,497	-	-	5,826,497
Equipment	3,244,492	522,802	453,014	4,220,308
Total capital assets being depreciated	<u>9,230,144</u>	<u>522,802</u>	<u>453,014</u>	<u>10,205,960</u>
Accumulated depreciation				
Land improvements	(204,346)	(9,061)	-	(213,407)
Building and improvements	(2,665,144)	(132,455)	-	(2,797,599)
Equipment	(1,238,999)	(427,580)	2,918	(1,663,661)
Total accumulated depreciation	<u>(4,108,489)</u>	<u>(569,096)</u>	<u>2,918</u>	<u>(4,674,667)</u>
Net depreciable capital assets	<u>\$ 5,121,655</u>	<u>\$ (46,294)</u>	<u>\$ 455,932</u>	<u>\$ 5,531,293</u>
Right to use leased assets being amortized				
Equipment	\$ 1,874,355	\$ 25,429	\$ (99,693)	\$ 1,800,091
Accumulated amortization				
Furniture and equipment	(1,321,207)	(303,163)	99,693	(1,524,677)
Net right to use leased assets	<u>\$ 553,148</u>	<u>\$ (277,734)</u>	<u>\$ -</u>	<u>\$ 275,414</u>
Total capital assets	<u>\$ 6,271,582</u>			<u>\$ 7,186,836</u>

The Authority is in the process of replacing the Hospital and clinic. The cost to date consists of construction on the clinic. The Authority clinic expansion project total cost is estimated to be \$2.7 million with an estimated completion date of May 2023, funded internally. The project was approximately 43% complete at December 31, 2022.

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

Capital assets and right to use asset additions, retirements, transfers and balances for the year ended December 31, 2021 are as follows:

	Balance December 31, 2020 as restated	Additions	Transfers/ Retirements	Balance December 31, 2021 as restated
Capital assets not being depreciated				
Land	\$ 79,717	\$ -	\$ -	\$ 79,717
Construction in progress	-	61,759	-	61,759
Equipment not placed in service	-	-	455,303	455,303
Total capital assets not being depreciated	<u>\$ 79,717</u>	<u>\$ 61,759</u>	<u>\$ 455,303</u>	<u>\$ 596,779</u>
Capital assets being depreciated				
Land improvements	\$ 159,155	\$ -	\$ -	\$ 159,155
Building and improvements	5,973,564	16,469	(163,536)	5,826,497
Equipment	3,163,842	1,195,600	(1,114,950)	3,244,492
Total capital assets being depreciated	<u>9,296,561</u>	<u>1,212,069</u>	<u>(1,278,486)</u>	<u>9,230,144</u>
Accumulated depreciation				
Land improvements	(188,718)	(26,181)	10,553	(204,346)
Building and improvements	(2,696,356)	(121,771)	152,983	(2,665,144)
Equipment	(1,725,939)	(172,707)	659,647	(1,238,999)
Total accumulated depreciation	<u>(4,611,013)</u>	<u>(320,659)</u>	<u>823,183</u>	<u>(4,108,489)</u>
Net depreciable capital assets	<u>\$ 4,685,548</u>	<u>\$ 891,410</u>	<u>\$ (455,303)</u>	<u>\$ 5,121,655</u>
Right to use leased assets being amortized				
Equipment	\$ 1,874,355	\$ -	\$ -	\$ 1,874,355
Accumulated amortization				
Equipment	<u>(952,876)</u>	<u>(368,331)</u>	<u>-</u>	<u>(1,321,207)</u>
Net right to use leased assets	<u>\$ 921,479</u>	<u>\$ (368,331)</u>	<u>\$ -</u>	<u>\$ 553,148</u>
Total capital assets	<u>\$ 5,686,744</u>			<u>\$ 6,271,582</u>

Note 6 - Software Liability

Software liability additions, payments and balances for the years ended December 31, 2022 and 2021 are as follows:

	Balance December 31, 2021	Additions	Payments	Balance December 31, 2022	Due Within One Year
	Restated				
Software Agreement	<u>\$ 938,120</u>	<u>\$ -</u>	<u>\$ (124,242)</u>	<u>\$ 813,878</u>	<u>\$ 129,322</u>
	Balance December 31, 2020	Additions	Payments	Balance December 31, 2021	Due Within One Year
	Restated			Restated	
Software Agreement	<u>\$ 1,054,424</u>	<u>\$ -</u>	<u>\$ (116,304)</u>	<u>\$ 938,120</u>	<u>\$ 124,242</u>

The Authority entered into a non-cancelable software agreement. As of December 31, 2022, the value of the software liability was \$813,878. The value of the monthly payments based on contract provisions requires the Authority to make monthly payments of \$14,353 with an imputed interest rate of 5.7% through June 2028. The Authority finalized a loan forgiveness with a software vendor during 2022.

Scheduled payments on the software agreement are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 129,322	\$ 42,206
2024	137,489	34,747
2025	145,377	26,859
2026	153,716	18,520
2027	162,534	9,702
2028	<u>85,440</u>	<u>1,387</u>
Total	<u>\$ 813,878</u>	<u>\$ 133,421</u>

Note 7 - Lease Obligations

The Authority has entered into lease agreements for medical equipment. The Authority is required to make principal and interest payments through August 2025. The lease liabilities were valued using discount rates between 2.52% and 8.6% based on the Authority's incremental borrowing rate at the inception of the leases.

Right to use leased asset obligations additions, payments and balances for the years ended December 31, 2022 and 2021 are as follows:

	Balance December 31, 2021 Restated	Additions	Payments	Balance December 31, 2022 Restated	Due Within One Year
Medical Equipment	\$ 706,871	\$ 25,429	\$ (287,308)	\$ 444,992	\$ 245,641
	Balance December 31, 2020 Restated	Additions	Payments	Balance December 31, 2021 Restated	Due Within One Year
Medical Equipment	\$ 1,038,267	\$ -	\$ (331,396)	\$ 706,871	\$ 286,687

As of September 30, 2022, the value of the lease liabilities are \$444,992 and the leased assets are \$275,414 and consisted of the following for right to use assets:

- Right to use medical equipment with a lease liability value of \$2,820. The Authority is required to make monthly principal and interest payments of \$568 through May 2023. The lease liability was valued using a discount rate of 2.52% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.
- Right to use medical equipment with a lease liability value of \$9,467. The Authority is required to make monthly principal and interest payments of \$553 through April 2024. The lease liability was valued using a discount rate of 4.93% based on the Authority's incremental borrowing rate.
- Right to use medical equipment with a lease liability value of \$58,128. The Authority is required to make monthly principal and interest payments of \$2,368 through June 2025. The lease liability was valued using a discount rate of 5.16% based on the Authority's incremental borrowing rate. The lease contains a purchase option for \$1.
- Right to use medical equipment with a lease liability value of \$213,823. The Authority is required to make monthly principal and interest payments of \$9,750 through December 2024. The lease liability was valued using a discount rate of 4.80% based on the Authority's incremental borrowing rate. The lease contains a purchase option for \$1.
- Right to use medical equipment with a lease liability value of \$72,963. The Authority is required to make monthly principal and interest payments of \$5,345 through March 2024. The lease liability was valued using a discount rate of 4.07% based on the Authority's incremental borrowing rate.
- Right to use medical equipment with a lease liability value of \$13,584. The Authority is required to make monthly principal and interest payments of \$902 through May 2024. The lease liability was valued using a discount rate of 8.60% based on the Authority's incremental borrowing rate. The lease contains a purchase option for \$1.
- Right to use medical equipment with a lease liability value of \$29,558. The Authority is required to make monthly principal and interest payments of \$1,105 through May 2025. The lease liability was valued using a discount rate of 6.56% based on the Authority's incremental borrowing rate. The lease contains a purchase option for \$1.
- Right to use medical equipment with a lease liability value of \$21,283. The Authority is required to make monthly principal and interest payments of \$807 through June 2025. The lease liability was valued using a discount rate of 7.75% based on the Authority's incremental borrowing rate.

- Right to use medical equipment with a lease liability value of \$1,268. The Authority is required to make monthly principal and interest payments of \$89 through April 2024. The lease liability was valued using a discount rate of 7.75% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.
- Right to use copiers with a lease liability value of \$22,098. The Authority is required to make monthly principal and interest payments of \$789 through August 2025. The lease liability was valued using a discount rate of 7.75% based on the Authority's incremental borrowing rate. The lease contains a purchase option for fair market value.

Remaining principal and interest payments on leases are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 245,641	\$ 17,321
2024	180,484	5,682
2025	18,867	271
Total	<u>\$ 444,992</u>	<u>\$ 23,274</u>

Note 8 - Long-Term Debt

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2022 is as follows:

	<u>Balance December 31, 2021 Restated</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance December 31, 2022</u>	<u>Due Within One Year</u>
Direct Borrowing					
Note payable to bank (A)	\$ 1,414,168	\$ -	\$ (83,203)	\$ 1,330,965	\$ 89,864
Note payable to bank (B)	1,041,207	-	(56,376)	984,831	74,362
Note payable to bank (C)	58,754	-	(25,233)	33,521	26,637
Total	<u>\$ 2,514,129</u>	<u>\$ -</u>	<u>\$ (164,812)</u>	<u>\$ 2,349,317</u>	<u>\$ 190,863</u>

A schedule of changes in the Authority's long-term debt for the year ended December 31, 2021 is as follows:

	Balance December 31, 2020 Restated	Additions	Forgiveness/ Payments	Balance December 31, 2021 Restated	Due Within One Year
Direct Borrowing					
Note payable to bank (A)	\$ 1,506,708	\$ -	\$ (92,540)	\$ 1,414,168	\$ 84,495
Note payable to bank (B)	1,107,675	-	(66,468)	1,041,207	70,884
Note payable to bank (C)	82,657	-	(23,903)	58,754	25,233
Note payable to vendor (D)	11,333	-	(11,333)	-	-
Note payable to vendor (E)	134,819	-	(134,819)	-	-
Note payable to Central Oklahoma Economic Development District, Inc.	10,541	-	(10,541)	-	-
Paycheck Protection Program	-	1,893,107	(1,893,107)	-	-
Total	<u>\$ 2,853,733</u>	<u>\$ 1,893,107</u>	<u>\$ (2,232,711)</u>	<u>\$ 2,514,129</u>	<u>\$ 180,612</u>

Note Payable to Bank (A)

The first note payable to the bank is due December 2028, with monthly payments of \$14,494, including interest at 6.5%. The note is secured by a mortgage on the medical office building owned by the Authority and an assignment of all rents related to the medical office building. The note was used for capital acquisition. This note payable includes a balloon payment of \$742,375 due in December 2028.

Note Payable to Bank (B)

The second note payable to the bank was entered into in April 2012 in the amount of \$1,500,000 and is due April 2032, with monthly payments of \$9,943, including interest at the Farmer Mac 3-Month Cost of Funds Index Net Yield plus 3.5% (8.0% at December 31, 2022). The note was used for capital improvements (80% of the note) and operations (20% of the note). The note is secured by certain real property and an assignment of one quarter of the Authority's city appropriation revenue.

The second note agreement requires the Authority to maintain compliance with certain loan covenant ratios, which were not met as of December 31, 2022. The Authority obtained a letter from the lender waiving the noncompliance with loan covenants for the year ended December 31, 2022.

Note Payable to Bank (C)

The third note payable to the bank is due March 2024, with monthly payments of \$2,317, including interest at 5.43%. The note was used for capital acquisition. The note is secured by certain capital assets.

Note Payable to Vendor (D)

The obligation was paid in full during the year ended December 2021.

Note Payable to Vendor (E)

The obligation was paid in full during the year ended December 2021.

Note Payable to Central Oklahoma Economic Development District, Inc.

The obligation was paid in full during the year ended December 2021.

Paycheck Protection Program (PPP) Loan

The Authority recorded forgiveness when the obligation was legally released by the SBA and lender. The Authority recognized \$1,907,625 of loan and interest forgiveness income for the years ended December 31, 2021.

Scheduled debt service requirements for the Authority's long-term debt are as follows:

<u>Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 190,863	\$ 128,728
2024	180,782	119,042
2025	184,143	108,771
2026	195,011	97,882
2027	208,336	86,781
2028 - 2032	<u>1,390,182</u>	<u>116,553</u>
Total	<u>\$ 2,349,317</u>	<u>\$ 657,757</u>

Note 9 - Defined Contribution Plan

The Authority has a defined contribution plan which covers substantially all employees. Contribution expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Authority's Board of Trustees. The plan provides retirement and death benefits to plan members and their beneficiaries. Total contribution expense for the years ended December 31, 2022, 2021, and 2020, was approximately \$228,000, \$196,000, and \$161,000.

Note 10 - Concentrations of Credit Risk

The Authority grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of receivables from third-party payors and patients at December 31, 2022 and 2021 was as follows:

	2022	2021
Medicare	14%	17%
Medicaid	30%	14%
Commercial insurance	42%	40%
Patients	14%	29%
	<u>100%</u>	<u>100%</u>

Note 11 - Contingencies**Risk Management**

The Authority is exposed to various risks of loss from torts; theft of, damage, of assets; business interruptions; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1 million per claim and an annual aggregate limit of \$3 million. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Self-Funded Health Plan

The Authority became self-funded for health benefits for eligible employees and their dependents during 2022. The Authority, in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recorded at year-end which estimates the incurred by not reported claims that will be paid by the Authority. The Authority has stop loss insurance to cover catastrophic claims in excess of \$85,000 per claim and an annual aggregate limit of 100% of expected claims, as measured annually by the insurance provider.

The Authority expenses amounts representing the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in self-insurance claims in the financial statements. These amounts have been estimated based on historical trends and actuarial analysis.

Changes in the balance of claims liabilities during the past year is as follows:

	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2022	\$ -	\$ 1,611,630	\$ (1,374,237)	\$ 237,393

COVID-19 Pandemic

The world-wide coronavirus pandemic continues to impact national and global economies. The Authority is closely monitoring its operations, liquidity and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the current and future full impact to the Authority is not known.

Note 12 - Supplemental Hospital Offset Payment Program

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), requires a fee on hospitals to generate matching funds to the State of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

Critical access hospitals are excluded from paying the supplemental hospital offset fee but are still eligible to receive SHOPP funds. The Authority records receipts as a reduction in Medicaid contractual adjustments. Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP. During 2022 and 2021, the Authority received approximately \$1,859,000 and \$1,101,000 in SHOPP funds.

Note 13 - Condensed Combining Information

The following summarizes combining information for the Authority and Hospital, which has been presented as a blended component unit, as of and for the year ended December 31, 2022.

Statement of net position as of December 31, 2022:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Assets				
Current assets	\$ 1,561,286	\$ 6,345,138	\$ -	\$ 7,906,424
Noncurrent assets	-	2,297,286	-	2,297,286
Capital assets, net	2,998,023	4,188,813	-	7,186,836
Total assets	\$ 4,559,309	\$ 12,831,237	\$ -	\$ 17,390,546
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Current liabilities	\$ 196,153	\$ 4,784,173	\$ -	\$ 4,980,326
Noncurrent liabilities	2,158,454	883,907	-	3,042,361
Total liabilities	2,354,607	5,668,080	-	8,022,687
Deferred Inflows of Resources	49,216	-	-	49,216
Net Position				
Net investment in capital assets	845,672	2,685,558	-	3,531,230
Unrestricted	1,309,814	4,477,599	-	5,787,413
Total net position	2,155,486	7,163,157	-	9,318,643
Total liabilities, deferred inflows and net position	\$ 4,559,309	\$ 12,831,237	\$ -	\$ 17,390,546

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

Operating results and changes in net position for the year ended December 31, 2022:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ -	\$ 21,414,344	\$ -	\$ 21,414,344
Other income	233,883	62,624	(83,840)	212,667
Total revenue	233,883	21,476,968	(83,840)	21,627,011
Operating expenses				
Depreciation and amortization	134,104	738,155	-	872,259
Other operating expenses	117,425	19,447,928	(83,840)	19,481,513
Total operating expenses	251,529	20,186,083	(83,840)	20,353,772
Operating income (loss)	(17,646)	1,290,885	-	1,273,239
Nonoperating revenues	544,597	1,713,485	-	2,258,082
Change in Net Position	526,951	3,004,370	-	3,531,321
Transfers	(1,086,339)	1,086,339	-	-
Net Position, Beginning of Year	2,714,874	3,072,448	-	5,787,322
Net Position, End of Year	\$ 2,155,486	\$ 7,163,157	\$ -	\$ 9,318,643

Cash flows for the year ended December 31, 2022:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Net Cash from Operating Activities	\$ 123,610	\$ 1,089,158	\$ -	\$ 1,212,768
Net Cash used for Noncapital Financing Activities	(767,985)	(1,734,075)	-	(2,502,060)
Net Cash used for Capital and Related Financing Activities	(68,957)	(2,238,594)	-	(2,307,551)
Net Cash from Investing Activities	3,575	1,685	-	5,260
Net Change in Cash and Cash Equivalents	(709,757)	(2,881,826)	-	(3,591,583)
Cash and Cash Equivalents, Beginning of Year	1,898,550	9,587,883	-	11,486,433
Cash and Cash Equivalents, End of Year	\$ 1,188,793	\$ 6,706,057	\$ -	\$ 7,894,850

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

The following summarizes combining information for the Authority and Hospital, which has been presented as a blended component unit, as of and for the year ended December 31, 2021.

Statement of net position as of December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Assets				
Current Assets	\$ 2,241,880	\$ 8,390,997	\$ -	\$ 10,632,877
Noncurrent assets	49,216	3,150,244	-	3,199,460
Capital assets, net	<u>3,132,127</u>	<u>3,139,455</u>	<u>-</u>	<u>6,271,582</u>
Total assets	<u>\$ 5,423,223</u>	<u>\$ 14,680,696</u>	<u>\$ -</u>	<u>\$ 20,103,919</u>
Liabilities, Deferred Inflows of Resources and Net Position				
Liabilities				
Current liabilities	\$ 185,344	\$ 10,374,186	\$ -	\$ 10,559,530
Noncurrent liabilities	<u>2,333,517</u>	<u>1,234,062</u>	<u>-</u>	<u>3,567,579</u>
Total liabilities	<u>2,518,861</u>	<u>11,608,248</u>	<u>-</u>	<u>14,127,109</u>
Deferred Inflows of Resources	<u>189,488</u>	<u>-</u>	<u>-</u>	<u>189,488</u>
Net Position				
Net investment in capital assets	826,239	1,494,464	-	2,320,703
Unrestricted	<u>1,888,635</u>	<u>1,577,984</u>	<u>-</u>	<u>3,466,619</u>
Total net position	<u>2,714,874</u>	<u>3,072,448</u>	<u>-</u>	<u>5,787,322</u>
Total liabilities, deferred inflows and net position	<u>\$ 5,423,223</u>	<u>\$ 14,680,696</u>	<u>\$ -</u>	<u>\$ 20,103,919</u>

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

Operating results and changes in net position for the year ended December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Operating revenues				
Net patient service revenue	\$ -	\$ 17,143,143	\$ -	\$ 17,143,143
Other income	233,940	66,968	(83,867)	217,041
Total revenue	233,940	17,210,111	(83,867)	17,360,184
Operating expenses				
Depreciation and amortization	129,882	559,108	-	688,990
Other operating expenses	65,141	16,482,771	(83,867)	16,464,045
Total operating expenses	195,023	17,041,879	(83,867)	17,153,035
Operating income	38,917	168,232	-	207,149
Nonoperating revenues	503,179	4,660,299	-	5,163,478
Change in Net Position	542,096	4,828,531	-	5,370,627
Transfers	544,336	(544,336)	-	-
Net Position (Deficit), Beginning of Year	1,628,442	(1,211,747)	-	416,695
Net Position, End of Year	\$ 2,714,874	\$ 3,072,448	\$ -	\$ 5,787,322

Cash flows for the year ended December 31, 2021:

	The Cleveland Area Hospital Authority	Cleveland Area Hospital Holdings, Inc.	Eliminations	Total
Net Cash from Operating Activities	\$ 149,372	\$ 2,448,269	\$ -	\$ 2,597,641
Net Cash from Noncapital Financing Activities	1,102,380	521,709	-	1,624,089
Net Cash used for Capital and Related Financing Activities	(439,510)	(1,825,700)	-	(2,265,210)
Net Cash from Investing Activities	816	1,024	-	1,840
Net Change in Cash and Cash Equivalents	813,058	1,145,302	-	1,958,360
Cash and Cash Equivalents, Beginning of Year	1,085,492	8,442,581	-	9,528,073
Cash and Cash Equivalents, End of Year	\$ 1,898,550	\$ 9,587,883	\$ -	\$ 11,486,433

Note 14 - Restatement

The Authority's financial statements as of December 31, 2021, contained an error in the balance of net position, net investment in capital assets and net position, unrestricted. Net position, net investment in capital assets was increased by \$341,134 and unrestricted net position was decreased by \$341,134.

Also, as of January 1, 2020, the Authority adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Beginning rent receivables, capital assets, long term liabilities and cash flows were restated to retroactively adopt the provisions of GASB Statement No. 87 as follows:

	Originally Presented December 31 2021	Restatement	As restated December 31 2021
Statement of Net Position			
Assets			
Current assets			
Current maturities of rent receivable	\$ -	\$ 140,272	\$ 140,272
Total current assets	10,492,605	140,272	10,632,877
Capital assets being being depreciated, net	5,629,650	(507,995)	5,121,655
Right to use leased assets, net	-	553,148	553,148
Total capital assets	6,226,429	45,153	6,271,582
Rent receivable, less current maturities	-	49,216	49,216
Total assets	<u>\$ 19,869,278</u>	<u>\$ 234,641</u>	<u>\$ 20,103,919</u>

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

	Originally Presented December 31 2021	Restatement	As restated December 31 2021
Liabilities			
Current liabilities			
Current maturities of long term debt	\$ 525,503	\$ (344,891)	\$ 180,612
Current maturities of software liabilities	-	124,242	124,242
Current maturities of right to use lease liabilities	-	286,687	286,687
Total current liabilities	10,493,492	66,038	10,559,530
Noncurrent liabilities			
Long-term debt, less current maturities	3,558,327	(1,224,810)	2,333,517
Software liabilities, less current maturities	-	813,878	813,878
Right to use lease liabilities, less current maturities	-	420,184	420,184
Total noncurrent liabilities	3,558,327	9,252	3,567,579
Total Liabilities	14,051,819	75,290	14,127,109
Deferred inflows of resources	-	189,488	189,488
Net position			
Net investment in capital assets	2,691,974	(371,271)	2,320,703
Unrestricted	3,125,485	341,134	3,466,619
Total net position	5,817,459	(30,137)	5,787,322
Total liabilities, deferred inflow of resources and net position	\$ 19,869,278	\$ 234,641	\$ 20,103,919
Statement of Revenues, Expenses and Changes in Net Position			
Operating Expenses			
Other	\$ 4,869,730	\$ 13,147	\$ 4,882,877
Depreciation and amortization	683,195	5,795	688,990
Total operating expenses	17,134,093	18,942	17,153,035
Operating Income	226,091	(18,942)	207,149
Nonoperating			
Interest expense	(270,864)	(11,195)	(282,059)
Net nonoperating revenues	5,174,673	(11,195)	5,163,478
Revenues in excess of expenses	5,400,764	(30,137)	5,370,627
Net Position, Beginning of Year	416,695	-	416,695
Net Position, End of Year	\$ 5,817,459	\$ (30,137)	\$ 5,787,322

The Cleveland Area Hospital Authority

Notes to Financial Statements

December 31, 2022 and 2021

	Originally Presented December 31 2021	Restatement	As restated December 31 2021
Statement of Cash Flows			
Operating activities			
Payments to suppliers and contractors	\$ (4,194,016)	\$ 96,220	\$ (4,097,796)
Net cash from operating activities	2,501,421	96,220	2,597,641
Noncapital Financing Activities			
Principal paid on noncapital long-term debt	(88,342)	53,176	(35,166)
Interest paid on noncapital long-term debt	(60,436)	34,968	(25,468)
Net Cash from Noncapital Financing Activities	1,535,945	88,144	1,624,089
Capital and capital related financing activities			
Principal payments on long-term debt	(609,944)	305,506	(304,438)
Payment of interest on long-term debt	(197,074)	65,330	(131,744)
Principal payments on software liabilities	-	(116,304)	(116,304)
Payment of interest on software liabilities	-	(56,875)	(56,875)
Principal payments on right to use lease liabilities	-	(331,396)	(331,396)
Payment of interest on right to use lease liabilities	-	(50,625)	(50,625)
Net cash used for capital and capital related financing activities	(2,080,846)	(184,364)	(2,265,210)
Net change in cash and cash equivalents	\$ 1,958,360	\$ -	\$ 1,958,360



Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
The Cleveland Area Hospital Authority
d/b/a Cleveland Area Hospital Trust Authority
Cleveland, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of The Cleveland Area Hospital Authority d/b/a Cleveland Area Hospital Trust Authority (Authority), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 9, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Oklahoma City, Oklahoma
May 9, 2023

2022-001 Preparation of Financial Statements
Material Weakness

Criteria: A properly designed system of internal control over financial reporting includes controls to ensure new accounting standards are properly implemented in financial reporting.

Condition: The Authority did not have an internal control system designed to properly implement GASB Statement No. 87, *Leases* (GASB 87). In addition, including a restatement of the prior year financial statements due to a correction of an error, was identified.

Cause: This condition was caused by the lack of a properly designed reporting process.

Effect: Adjustments were required during the audit to properly state the account balances impacted by the new standard. In addition, the need for adjustments indicates that the Authority's interim financial information may not be materially correct, which may affect management decisions during the course of the year. Audit adjustments were required to fairly state right to use leased assets, net capital assets, right to use lease liabilities and long-term debt.

Auditor's Recommendation: We recommend the Authority adopt a process over the implementation of new accounting standards and to monitor lease transactions going forward. Management will need to analyze any new agreements entered into by the Authority and ensure leases meeting the criteria of GASB 87 are correctly reported.

Views of Responsible Officials: Management agrees with the finding.